The Rise and Fall of Keynesian Economics

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Abstract: There aren't many geniuses in economics. John Maynard Keynes was one. He revolutionized the way we understand how the economy works, and even how we measure its workings. Those who say "consumers are the main job creators" have absorbed a major lesson of Keynesian economics But this is not the only one. Though our version has been called *Bastard Keynesianism,* it has helped to stabilize the US economy and reduce unemployment in the postwar era. We saw this most recently during the financial crisis, yet the theory remains controversial. Why? And what opened the theory to attack?

[Slide1] A gold bug newsletter in 2009 put John Maynard Keynes, the most important economist of the 20th century, in the category of wanton revolutionary, a belief shared by other conservatives:

> Lord Keynes, along with Vladimir Lenin ranks among the most destructive forces unleashed by World War I. Keynes was a Fabian socialist who provided intellectual cover for inflationism. He was more subtle than Lenin, more a termite than a thug. He... author[ed] bogus economic theories that turned classical economics on its head, undermined Western values..., and enslave us to this day.[1]

It is far more plausible that he saved capitalism and liberal democracy. For example, Hitler's policies had reduced unemployment to 1% by 1936, while ours was still over 14%.[2] Of course, many capitalists don't admit they need saving, at least until a financial crisis. Ironically, the rejection of Keynes and market regulation in favor of financial globalization, with its crises and austerity, has created conditions for an authoritarian world.[3] My plan is to describe Keynesian theory and why it met opposition [Slide2] despite its success. Notice the wider swings of output [black line] and longer recessions [shaded areas] before WW2. I'll end with the neoliberal counterattack and updates to Keynes.

Keynes was no socialist, Fabian or otherwise. A biographer reports that he "always thought of himself as a man of the Left. But the Left to him simply meant the Liberal Party[4]..... [though] the emergence of a powerful critic of Establishment policies from within the Establishment was a great boon to the Left."[5] He was ambivalent about capitalism. As his colleague Joan Robinson, described him, "Morally and aesthetically, capitalism disgusted him, while at the same time he felt that the system was the 'best in sight' and must be defended."[6] Though he was clever at making money, he considered moneymaking merely a means of living "wisely, agreeably, and well,"[7] not a goal. Pursuing money for its own sake he thought "a somewhat disgusting morbidity."[8]

An advocate of markets, Keynes didn't dispute the answers to the traditional economic questions of what to produce, how to produce, and who benefits. To those proposing state ownership of resources, he answered, "there is no objection to be raised against the classical analysis of the manner in which private self-interest will determine what in particular is produced, in what proportions the factors of production will be combined to produce it, and how the value of the final product will be distributed between them,"[9] though he considered inequality an economic impediment. However, he was a practical problem-solver and shifted his position when he saw fit. When Churchill sent Keynes a cable reading, "Am coming around to your point of view," Keynes replied, "Sorry to hear it. Have started to change my mind."[10]

A key to understanding Keynes is that unlike most economists today, his major goal was to eliminate unemployment: the “real problem, fundamental yet essentially simple…[is] to provide employment for everyone.”[11] His target for unemployment is “the sort of level we are experiencing in wartime ... less than 1%.”[12] He objected to an economy which produced far less than it could, a waste which left millions unemployed in economies where work is not merely social status, but livelihood.

He said,

> *“...the labor of the unemployed is available to increase the national wealth. It is crazy to believe that we shall ruin ourselves financially by trying to find means for using it and that safety lies in continuing to maintain idleness.”*[13]

Once full employment is achieved, markets can be allowed to work freely, and “there is no more reason to socialize economic life than there was before."[14] However, another comment in his major work, *The General Theory of Employment, Interest and Money*, suggested that a “socialization of investment,” including public-private partnerships, might be necessary to secure full employment.[15]

What was the economic orthodoxy against which Keynes was rebelling? It was what he had learned at university and once used as a practitioner at the highest levels of British academia and government, especially the British Treasury and as a Bank of England official.[16] What Keynes termed the “classical theory” assumed that the economy can manage itself. Beset by recession—even the depression of the 1930’s—the economy soon rights itself. This theory adopted Say’s Law: “supply creates its own demand,” meaning that whatever is produced can be sold.[17] If there is a surplus of goods, prices fall, leading consumers to buy more and producers to make less. If savers provide more funds than businesses are willing to invest, interest rates on loans fall, leading to more investment and less saving. Same with unemployment—wages will fall, so firms hire more workers, while others leave the job market. Involuntary unemployment, meaning unemployed workers willing to accept the going wage, is impossible. Nothing need be done. In fact, doing anything will only make things worse. Economists believed that problems of long-term unemployment arise only if wages are prevented from falling.

Preceding the 1930’s depression, there was too little union power to blame unions; too little regulation to blame regulation; and too much government support of business to blame government for the disaster. Inequality was at levels resumed only in the late 1990’s. As the *Wall St. Journal* described the Coolidge era in 1927, “Never before, here or anywhere else, has a government been so completely fused with business.”[18]

The unfortunate Herbert Hoover had, as a candidate in 1928, promised “a chicken in every pot and an automobile in every garage,” chicken being a luxury then.[19] Instead, his Administration, faced with economic collapse and deficits created by falling tax revenues, made depression worse by raising taxes in 1932—“the largest peacetime tax increase in U.S. history.”[20] It is difficult to imagine now, given our enormous deficits, that there was such a fear of the modest deficits of the 1930’s. State and local governments raised taxes, too. Hoover had declared in June 1930: “The Depression is over.”[21] It of course continued until WWII. Roosevelt further increased taxes and cut spending in 1937. This was followed by recession within the Depression. The Federal Reserve contributed to the fiasco by tightening credit. Clearly, Keynesian policy had not yet been firmly established.

How much did Keynes influence the New Deal?[22] Not a lot. Keynes had sent world leaders a version of his policy by 1933,[23] and New Deal policy matched some of his recommendations: repair the banks, devalue the currency, and build public works to stimulate the private sector.[24] *But not in scale*. When Keynes met President Roosevelt just over a year later, he had decided that while the New Deal had commendably spent $2.8 billion on the crisis, it was too little. In an open letter to the president,[25] he estimated that another $2.4 billion was needed over the next six months—enough to raise the total to the $5 to $6 billion range that Roosevelt had rejected as "wild." Roosevelt told Labor Secretary Frances Perkins, "I saw your friend Keynes. He left a whole rigmarole of figures. He must be a mathematician rather than a political economist."[26] Roosevelt's response was probably not because he didn't understand the math, but because he did—what was required was politically impossible. Keynes had described to Perkins the effects of spending: "...a dollar spent on relief by the government was a dollar given to the grocer, by the grocer to the wholesaler, and by the wholesaler to the farmer, in payment of supplies. With one dollar paid out for relief or public works or anything else, you have created four dollars' worth of national income."[27] This describes the multiplier effect, an important tool of fiscal policy. [Fiscal policy means taxes or spending.] Many Conservatives reject it, believing the multiplier is zero because government spending displaces other spending.[28]

The New Deal in fact was not very ideological—its policies were a pragmatic response to crisis. Its most important early economic policy was putting people directly to work, still a good idea. Harry Hopkins, a social worker, was put in charge of the Civil Works Administration in the fall of 1933. Hopkins created four million jobs, mainly in construction, in the few months before it was ended in March 1934.[29]

A bold fiscal policy during the Depression faced problems: in 1929, federal spending was under 4 percent of GDP. To absorb the unemployed, federal spending needed to replace investment, which had collapsed. From 16% of output in 1929, it plunged to 3% of a far smaller output by 1933.[30] The federal share would have had to rise by a multiple. That was both politically and practically impossible. With federal spending, including transfers like Social Security, now nearly 21% of output,[31] the government can far more easily manage the economy with modest fiscal changes.[32] Full employment awaited the military spending of WW 2.

The lack of information also impeded action: concepts and measures of income that we use now were formulated because of the Depression. Despite these shortcomings, the New Deal accomplished a great deal by putting millions, including artists and writers, back to work. The structures that its workers created are with us still. We can visit over a thousand in New York City alone, like Brooklyn College, the Central Park Zoo, or LaGuardia Airport.[33]

After his visit, Keynes noted "this so-called 'Bolshevik' administration has saved the capital financial structure," called the recovery historically outstanding, and concluded, "The whole difficulty that confronts this liberal Administration is a world problem: can liberalism and democracy last out,—that is the problem everywhere. Most American business leaders lack imagination and have no apprehension of the problem facing their society, if it is to survive."[34]

Who was this economist who created a theoretical revolution? [Slide3] Keynes came from privilege at its best —loving, intelligent and attentive parents who were intellectually and politically engaged, as well as financially comfortable. His mother, Florence, was a writer, a social reformer active in helping the poor and unemployed, and a politician. She was the first woman on the Cambridge City Council.[35] His father, John Neville Keynes, was a renowned economist in his day. Philosopher Bertrand Russell called the son one of the most intelligent people he had ever known. "Every time I argued with Keynes, I felt that I took my life in my hands and I seldom emerged without feeling something of a fool." Born in 1883, Keynes showed an early gift for mathematics. His education included some home schooling, Eton, and Cambridge University, where he earned a mathematics degree. An early book was *A Treatise on Probability.* Russell, who co-authored *Principia Mathematica,* described it as "undoubtedly the most important work on probability that has appeared for a very long time."[36] Keynes's professional career began in 1906, with an appointment to the British civil service. It quickly bored him. Returning to teach at Cambridge, he first worked on probability theory, and then became an economics lecturer in a post funded by famed economist Alfred Marshall.[37] In subsequent years, he worked for the British Treasury, and was its chief representative at the Versailles Conference in 1919 ending WWI. He wrote an important work, *The Economic Consequences of the Peace,* criticizing reparations imposed on Germany. "Keynes brought a glittering array of talents"[38] to his work, combining theoretical brilliance in economic analysis with practical problem-solving. He described his best ideas as coming "from 'messing about with figures and seeing what they must mean.'"[39] His enormous self-confidence, intellect and passionate engagement in social affairs made him a successful and sought after participant in both academia and government. His personality contained contradictions: he is described as "by turns charming and insupportable, cutting and kind, snobbish and unpresuming; the public person is profoundly serious, extraordinarily hard-working, crushingly intelligent."[40]

[Slide4] At the Bretton Woods Conference in 1944, he and Harry Dexter White, representing the US, were architects of the postwar trading system. US dominance of the agreement partially thwarted the aims of more stable economies and high employment.[41] Keynes "...was by every account...an enormously persuasive negotiator, quite willing to settle for the attainable, however distant that might be from the ideal."[42]

Keynes was a member of the famed Bloomsbury group, which included Virginia Woolf, apparently was bisexual as he had affairs with several of its members,[43] and married in 1925. [Slide5] His wife was Lydia Lopokova, chosen by Diaghilev for the Ballets Russes.[44] She had danced with Nijinsky and Ashton, married a bigamist in New York, and had affairs with Igor Stravisky, among others. Her dancing charmed audiences with its delicacy and ebullience. [Slide6] As a British newspaper described the marriage, "With the exception of Arthur Miller and Marilyn Monroe, there can have been no odder celebrity couple...." Their snobbish circle ridiculed them. Virginia Woolf wrote, “They say you can only talk to Maynard now in words of one syllable,” though she later came to admire Lydia’s intelligence and artistry. [Slide7] Lytton Strachey described her as a “half-witted canary.”[45] Nevertheless, it was clearly a successful love match.[46] E.M. Forster later regretted “how we all used to underestimate her.” She was a supportive wife, and thought his major work “beautiful like Bach.” “Without her constant attention and *joie de vivre*, Keynes might not have made it to Bretton Woods.”[47] Keynes died of a second heart attack at age 62 in April 1946, shortly after returning from contentious loan negotiations in the US. He predeceased both of his parents.[48]

In economics, Keynes began as a monetarist, believing that the economy could be stabilized by varying interest rates, a theory unfortunately with us still. However, when British unemployment reached levels as high as 20% in the interwar period, it was clear that monetarism was insufficient. His ideas changed dramatically. He began advocating public works as early as the 1920’s. His work eventually revolutionized economic theory. It changed the standard practice of budget balance in favor of deficit spending during economic downturns. Keynes, at least, expected that they’d be offset with surpluses as inflation threatened.[49] He didn’t acknowledge the work of predecessors with grace. He refers to earlier underconsumption theories as “liv[ing] on furtively, below the surface in the underworlds of Karl Marx” and others.

Let’s look more closely at his major work, *The General Theory*. Economic theory is important, both in explaining economic phenomena, and guiding measurement. According to Keynes, income is determined by spending. This theory is the reason our income and output accounts are measured as they are.[50] During the Depression, information about the state of the economy was scarce, so Congress asked the Dept. of Commerce to come up with income measures. It issued the first series of output data and income data by industry and type of income in 1934, updating the last complete income accounts from 1929.[51] Monthly data were not available until 1938. The first complete output data, including major expenditure categories, appeared in early1942, with a final version basically in place by 1947. Government officials of the 1930’s had to cope without good or timely information of what had gone wrong and to what extent programs were effective. Wartime mobilization was done without good data.

Because income depends on spending, the question is, what determines spending? Total spending is the sum of spending by each major economic group--households, government, the foreign sector, and businesses. These categories are chosen because each has a *different motivation*. Consumer spending depends on many variables, but our income is the most important. Income includes both earnings and transfer payments like Social Security. Government spending depends not only on its income, but on politics. Foreign sector spending, which is exports minus imports, depends on the value of the dollar, and tastes and income here and abroad. Business spending---investment---depends on expectations of profit from *adding* capacity, not on profits from *existing* plant.

Those words--*expectations* and *adding capacity*—are significant: they account for the variability of investment. "Expectations" means that the climate of opinion influences business decisions. Their outcome is uncertain because the future is unpredictable. This psychological base implies that decisions can change rapidly. "Profits from adding capacity" means that firms must have a reason to *add* plant or equipment. Profit on current sales, however great, won't induce firms to expand output. This will only happen if they expect that the output from building *more* plants or buying *new* machinery can be profitably sold. *So high current profits don't necessarily mean that firms will make new investments.* [A busy, profitable store that served local people in my modest neighborhood doubled its size and aimed at a higher-income clientele. Within a few months it was gone. It had doubled costs without increasing customers. The owners had been misled by current profits.] Summing up, the motivation for firms to invest requires that *something* has changed. If sales are not higher than existing plant can produce, if no new equipment is available that will pay for itself by reducing costs, if a new product is not available, or if their expectations about the future are no brighter, there is no reason to invest.[52]

In Keynesian theory, what equates saving to investment is not the interest rate, as in Classical theory, but income changes. Neither investment nor saving depends primarily on the interest rate. If consumers save more than businesses want to invest, then output will fall, reducing household incomes until their saving does match investment. Investment determines saving rather than the reverse. Though saving is individually rational, it can cause recession. If households try to save more, and this saving is not offset by spending elsewhere, output will decline and saving will fall.[53] This is the reason some have said that consumers are the real job-creators. You can also see how important research and development are to continued high investment. Government is one supporter of R and D. Transistors, jet engines, computers,[54] the internet--all these were developed through military funding, and all have inspired important new investments by private firms and new goods to tempt consumers. Keynes believed that as economies became richer and households saved a larger fraction of income, the chronic problem of insufficient investment for full employment would become worse.[55] Thus the need for a larger role for public investment.

What made the acceptance of Keynesian policy and the relatively egalitarian growth of the postwar period possible? Several things: first, the Depression delegitimized capitalism and its economic model. Keynesian theory explained why that model had failed, and provided an alternative. The 1937 slump, which resulted from a return to "sound finance," provided a test, dramatically illustrating that cutting spending and increasing taxes could make unemployment worse.[56]

WWII was also a test: the economy flourished, supporting both the war and [Slide8] the highest consumption ever achieved. Note the black bar measuring consumption rises to the 1929 level by 1941, then continues to exceed it right through the war. And it's understated because soldiers' consumption is included in government spending. [Slide9] All despite debt [blue line] now considered ruinous--up to 120% of output. Postwar, the unparalleled global competitiveness of US companies made them willing for a time to share rising output per worker with a militant labor force. The threat of unionization and the expectation of a rising standard of living extended benefits gained by unions to a wider labor force. Our succeeding history suggests that this era was an aberration.

Many analysts worried about a postwar recession and return to high unemployment. Our government had adopted Keynes's idea of compulsory saving, that is, war bonds and taxation, not only deficit spending, to finance the war. This good advice helped to stem both inflation and a postwar slump.[57] Transition to a postwar economy was fairly smooth, thanks to war bonds and pent-up demand for consumer goods, but problems were visible early. [Slide10] Despite the Marshall Plan and enormous recovery needs from the Depression and war shortages, the US suffered a minor recession in 1949, with unemployment rising to 7% for part of the year. Wartime output reached a historic maximum in 1944, not reached again until 1951, the first full year of the Korean War,[58] and a tripled military budget.

Muting Conservative opposition to public spending meant finding projects which don't compete with the private sector. Public housing competes with private; publicly financed medicine competes with private insurers; unemployment payments increase worker bargaining power. One answer was found in military spending, which, far from competing, supports the private sector—providing markets, supporting R and D, and protecting foreign markets and assets.[59] Keynes had described the utility of useless output to economic progress: "Just as wars have been the only form of large-scale loan expenditure which statesmen have thought justifiable, so gold-mining is the only pretext for digging holes in the ground which has recommended itself to bankers as sound finance."[60]

In 1949, the success of the Chinese revolution and Soviet test of an atomic bomb, large Communist parties in Europe, rising anti-colonial movements in the Third World, and a challenging though weak Soviet Union [SU], raised concerns about maintaining supremacy of the US economic model. Our chronic insufficiency of spending was an important weakness shaping policy. Conservative economist Milton Friedman's economic dictum was "There is no free lunch." In contrast, a colleague, Soviet expert Lynn Turgeon, described the US and the SU, respectively, as the Free Lunch Economy and the No Free Lunch Economy. By this he meant that the US usually has sufficient unused production capacity and unemployed workers to increase output without more machines or workers, i.e., the US could have a free lunch; the SU could not--it was always operating close to full capacity. This difference meant that the real cost to the US of providing foreign aid and building a formidable military, the lost alternative goods and services, was far less than for the SU. In fact, for the US this cost is usually not just zero, but negative--that is, our standard of living improves as a consequence of higher spending. Our chronically underused capital and labor means, for example, that filling a non-existent "missile gap" helped our economy, but meant a sacrifice for the Russians. The US situation was obvious to some policy-makers. For example, Dean Acheson, at that time Assistant Secretary of State, testified in 1944:

> "You don't have a problem of production. The United States has unlimited creative energy. The important thing is markets. ...You must look to foreign markets."[61]

Military Keynesianism, as it is called, has been one way of getting assent to government spending on machines and research, thereby supporting economic growth. [Slide11] Military spending as a share of GDP reached a peak of nearly 40% during World War 2, and postwar peak of 15% during the Korean War. The Soviets always were using a larger fraction of their output for military, about 60% during WW 2. Our proposed military budget for next year, including such items as veterans' affairs and homeland security, is $1.1 Trillion,[62] about 6% of GDP. Though the share has diminished, the military buys 10% of factory output.[63] The recent budget increase alone is enough to pay tuition for every public university student in the country, with billions to spare.[64]

Conceptually, the policy began with NSC 68, in 1950,[65] a secret document of the National Security Council declassified in 1975. Its argument was that military spending would harm Soviet growth while enhancing ours.

> ... in contrast to ours, [the capabilities of the Soviet world] are being drawn upon close to the maximum possible extent. ….. No matter what efforts Moscow might make, only a relatively slight change in the rate of increase in overall production could be brought about.[66]

Its economic thesis, that military spending would be good for the US economy and bad for the Soviets, helped to shape Cold War strategy.[67]

Though Keynesian theory has been controversial for much of its history, for a time even Richard Nixon proclaimed, "We are all Keynesians now." The theory was accepted not only because of its success, but because the most controversial parts were ignored or misinterpreted. Those that undercut support for inequality and policies that implied long-term problems, like the socialization of investment, were dropped.

Keynes believed any return above cost of production, called economic rent, was unwarranted. Here he is in the Classical tradition. Smith and Ricardo despised rent-receivers, like landlords whose rents rose only because larger populations forced the use of less fertile land. Keynes considered capital artificially scarce, and proposed eliminating both its scarcity and the return based on it. This would leave returns to skill, risk and entrepreneurship, all productive. Keynes advocated driving the interest rate to zero.[68] His theory removed a major buttress for inequality—saving, rather than necessary, impedes capital formation. He said, "One of the chief social justifications of great inequality...is, therefore, removed."[69]

In our day, rents proliferate, like high prices for coops near the Met Breuer,[70] or corporate managers using profits to buy company stock to drive up its price rather than investing. Rentier activities like oil, real estate and minerals get tax privileges.[71] Returns exceeding the growth rate promote inequality.[72] A *Harvard Business Review* article reports that rents have risen at the expense of both the wage *and* capital share.[73] In the opinion of Nobelist Angus Deaton, "rent-seekers like the banking and the health-care sectors just might [kill capitalism]." Rent-seeking slows growth: "All that talent is devoted to stealing things, instead of making things," he says.[74]

Also damaging to the theory were reinterpretations, like the early and successful attempt to make the *General Theory* compatible with classical theory, called the neoclassical synthesis.[75] This combined watered-down Keynesian macroeconomics with classical micro, like wage setting. Most notable in this effort was Paul

Samuelson, first economics Nobelist and author of a highly popular textbook, published in1948.[76] Joan Robinson, a distinguished economist and colleague of Keynes, called this school "Bastard Keynesians,"[77] many now called New Keynesians.[78] Some, like Paul Krugman, claim the problem of recession is sticky wages: "...shortfalls in overall demand would cure themselves if only wages and prices fell rapidly in the face of unemployment. In reality prices don't fall quickly...."[79] This contradicts Keynes—he pointed out that falling wages would make matters worse by reducing consumer spending. Further, the successful expansion of the postwar era led economists to treat the theory as merely a short-term remedy for business cycles. A British Labour official described this "Keynesian consensus" as "thinking...of our economic difficulties as arising from... market failures, irrationalities,... inflexibilities, ... and the like—as events that are somehow abnormal.... This ...is profoundly misleading. ....The whole history of capitalist society reveals nothing if not the unwelcome *normalcy* of such events."[80] Editors of a Marxist journal add,

"This sanitized version ... dropped much of the concern with inequality and social spending....Bastard Keynesians proclaimed that, with smart government policies, the system would work beautifully. The stagflation of the 1970s demolished this belief and left establishment Keynesianism largely discredited. ...it increasingly was framed as the cause of capitalism's growth problems, not the cure."[81]

Keynesian theory proved inadequate to the counterattack for other reasons. Michal Kalecki pointed out the political problem in 1943.[82]

> The assumption that a government will maintain full employment in a capitalist economy if it knows how to do it is fallacious. [With] permanent full employment, 'the sack' would cease to play its role as a disciplinary measure.... The workers would get out of hand and the captains of industry would be anxious 'to teach them a lesson.' ...big business and rentier interests... would probably find more than one economist to declare that the situation was manifestly unsound.[83]

Economic genius requires deep understanding of the structure and dynamics of a system constantly changing. This is hard: the originator of Quantum Theory told Keynes that "he had thought of studying economics, but had found it too difficult."[84] It is easier to be a great physicist than a great economist. Economic analysis, however brilliant, is historically-bound, and eventually undermined by changes that contradict its assumptions. Adam Smith's prescient description of an emerging market system is now irrelevant. In his time, government-granted monopolies like the East India Company were the only source of market control. Excluding them would not produce a completely level playing field, but would be close enough to self-regulating markets. New producers could enter an industry and undermine a monopoly firm's market power. Governments still grant monopolies through patents, but there are other sources of market power, like technology, political influence or sheer size. A company like Goldman Sachs can use these to influence its markets.

Keynes's theory is also time-bound. Globalization and finance have changed the way policy works. Both undermine the effectiveness of fiscal policy. Rising incomes fund more imports, for example, undercutting government stimulus. The financial sector's revenues may be used for unproductive investment, like the leveraged buyout[85] of the now bankrupted Toys R US. The unleashed financial sector gave us three crises in the last thirty years[86] and is far more powerful than in the 1930's, when New Dealers could regulate it. Not now. Despite the worst crisis since the Depression in 2008, the system is still at risk.[87]

Some theorists have updated Keynes's work on finance. [Slide12] According to Hyman Minsky's financial-instability hypothesis, a long period of stability, like the postwar, obscures the potential for instability. In fact, it creates conditions for the next crisis by inducing businesses to take on more risk, risk that can only be justified by extravagant hopes. Expansion generates optimism and talk about the "death of the business cycle." In the 1990s, the "new economy" was supposed to have killed the business cycle by cementing faster productivity growth. The dot.com bubble collapsed in 2000. In the 2000s, better monetary policy was credited with taming the business cycle. Ben Bernanke, at that time on the Fed Board, called the low-wages, low inflation regime of Federal Reserve Chair Alan Greenspan "the Great Moderation.[88] This is the Minsky cycle at work. Businesses became more confident about the future and exercised less caution in taking out loans.[89] That bubble collapsed in late 2007.

Moreover, optimism infects all economic actors—regulators, businesses, banks, and home-buyers. Economists, intoxicated by years of stability, supposed that they were permanent. Here is the 2003 assessment of then president of the American Economic Association, Robert Lucas, a long-time anti-Keynesian:

> [the] central problem of depression prevention has been solved, for all practical purposes....There remain important gains... from better fiscal policies, but ... these are gains from providing people with better incentives to work and to save, not from better fine-tuning of spending flows.[90]

Minsky's policies to prevent depression include government as employer of last resort to maintain both jobs and profits; and the Federal Reserve regulating financial institutions by *anticipating* changes that might affect stability rather than waiting to respond to disaster.[91]

The most important attack on Keynes and the welfare state was neoliberalism.[92] Inspired by 19th century laissez-faire, neoliberals advocate privatization, deregulation, free trade, and limited government, especially social welfare spending. [93] In Margaret Thatcher's aphorism, "there is no society, only individuals." A German sociologist describes it as "a demobilization ...of the entire post-war machinery of democratic participation and redistribution."[94]

What gave us this new economic regime? The corporate counterattack and shift in economic philosophy began in 1971 with a memo by the soon to be Supreme Court justice Lewis Powell, and with the collapse of Bretton Woods, beginning then.[95] The memo urged businesses to seek power and use it "aggressively."[96] This was a reaction to the progressive changes of the sixties. Post-Bretton Woods, international currency values changed from fixed to fluctuating rates. Volatility of foreign-exchange rates created profit opportunities for Wall Street.[97]

A phenomenal shift in policy began between 1978 and 1980.[98] In 1978, China began liberalizing its command economy; Thatcher became British Prime Minister and Paul Volcker[99] became head of the Federal Reserve in 1979; and Reagan became President in 1980. Their policies curbed labor power, deregulated the economy and accelerated financial deregulation.[100] The Clinton Administration freed finance from New Deal restraints in the 1990's, inspired by his Treasury Secretary, Robert Rubin, who then went on to Citigroup. International capital flows increased, growth slowed, private and public debt rose, and financial crises occurred more frequently.[101] The corporate world's goal became maximizing shareholder value, mostly ignoring the welfare of workers and communities. These may be connected to the corporation longer than shareholders.

The Soviet collapse in 1989 permitted an era of American triumphalism. Reagan, Bush and the Democrats who followed them dismantled major regulations of the New Deal, weakened unions and welfare programs, and negotiated trade agreements that encouraged outsourcing.[102] Neoliberals believed that their policies would ensure stability and steady growth, and should be a model for all countries. Thatcher called it TINA--there is no alternative. Lending institutions like the World Bank force it on debtor countries.[103]

When the most dangerous crisis since the 1930's came in 2008, it met a tepid fiscal response, accompanied by a bailout of financial miscreants. Even that response was criticized by anti-Keynesians, including Nobel Laureates.[104] In early 2010, despite an unemployment rate of 9.7%, President Obama created, over Senate objection, the National Commission on Fiscal Responsibility and Reform with two deficit hawks as co-chairs.[105] It was charged with creating a "grand bargain"—a compromise agreement to reduce the debt by cutting Social Security, Medicare and military spending, and increasing taxes.[106] Fortunately, the compromise failed, succumbing to Republican intransigence. [Slide13] *Financial Times* commentator Martin Wolf ridiculed the debt-mongers with this graph, showing British debt at 250% of income during the industrial revolution.[107]

The Administration went into the midterm election with unemployment higher than when it began, and a stimulus far smaller than many experts thought sufficient. Larry Summers, who was responsible for keeping it modest, now says, "I think in the end we would've been better served if there had been more push to the economy."[108] The current recovery is the slowest of the postwar era. It took eight years for unemployment to recover its prerecession level.[109] [SLIDE14] Compare Reagan's ample government spending [red line] with Obama's [blue line]. Private sector weakness was reinforced as federal jobs were cut every year from 2011 through 2013, and inflation-adjusted Federal spending on goods and services declined every year from 2011 through 2014.[110] Is it surprising that Democrats became the minority party around the country?[111] The Congressional Budget Office estimates our potential output in 2017 at 10% below the level it had projected in 2008, before the worst of the recession—a loss of roughly \$2 trillion a year, or \$6000 per person, imposed by the austerity agenda. Economist Dean Baker points out that, for future generations, this is like a yearly tax increase.[112]

What then about the debt created by anti-recessionary policy that is so worrisome to conservatives?[113] Keynes considered deficits acceptable as a means of offsetting deficiencies in private spending. However, unlike his critics, he did not expect that his policies would generate massive, continuing deficits and inflation. His perhaps too blithe comment was, "look after the unemployment, and the Budget will look after itself."[114] [Slide15] Keynesian Abba Lerner believed that, during major recessions, there is no inflationary pressure. Then, he recommended, deficits should be financed not by debt, but by Federal Reserve credit creation, in the vernacular, printing money.[115]

Keynes thought Lerner's policy impractical,[116] as he considered the investment problem to be long-term for rich countries with high savings and limited investment opportunities. He therefore expected a permanent role for public investment, up to 20% of output, referring to "the socialization of investment."[117] Given the volatility of private investment, this would have a major stabilizing role.[118] Further, government spending sufficient to ensure full employment would eliminate large budget deficits. In Keynes's view, deficits result from the failure to reach full employment. Deficits would occur only during minor recessions.[119] While public investment should be at least partly debt-financed, the ordinary budget would usually be in surplus.

Since the 1990's, there has been a counterattack against austerity. [Slide16] Modern Monetary Theory extends Lerner, and provides an alternative to private credit creation. This theory asserts that the only reason to tax is to control the level of spending. Greenspan would agree. Asked about the solvency of Social Security, he replied, "There's nothing to prevent the federal government from creating as much money as it wants and paying it to someone."[120] He added that the real question is whether goods are there for beneficiaries to buy. This implies that government can minimize deficits by creating money to pay for its programs.[121] This would let us avoid the austerity imposed by those claiming "there is no money," though money is there for tax cuts, bailouts, or military adventures. Currently, the important question of how much money we need is mostly decided by private banks, not public officials. It is little understood that bank profits come mostly from creating money.

The Bank of England explains:[122]

> One common misconception is that banks act simply as intermediaries, lending out the deposits that savers place with them. ....In reality, commercial banks are the creators of deposit money …. the act of lending creates deposits.[123]

In 2017, a large US bank could extend $9 in loans, that is, create money, for every dollar in deposits.[124]

Pavlina Tcherneva and some others of this school argue that Keynesian theory is also misinterpreted as proposing solely to increase aggregate demand generally, raising the likelihood of inflation.[125] Rather, Keynes preferred directed spending, like public works, to create employment, both during recessions and for unemployment that continues even when an economy is near full employment. Remember that his target for unemployment was less than 1%.[126] Keynes thought it ''easy to employ 80 to 90 percent of the national resources..." but "To employ [the rest], including labor, we would be 'more in need . . . of a rightly distributed demand than of greater aggregate demand.'"[127] Because "full, or even approximately full, employment is a rare and short-lived occurrence,"[128] policy should aim to stabilize investment, not consumption, by public works. If true, this is of enormous importance, as it would avoid the inflation that occurs if the policy is limited to increasing aggregate spending.[129] Public works can be directed to geographic areas of need and specifically to unused resources.

How well have the promises of neoliberalism been kept? US median annual earnings during the Bretton Woods era rose steadily until 1972. [Slide17] Then throughout the neoliberal era, real wages for men [blue line] have stagnated. Now women's [purple line] are stagnating, too. Catching up with productivity increases [green dashes] is better for women than catching up with men. It would raise women's wages by 70%. [Slide18] Global growth rates have slowed as debt burdens soared, and the investment share declined.[130] [Slide19] Consumer debt [red line], which rivals business and government debt, is worrisome, as households have neither the government's power to increase revenues nor to create money. [Slide-20] Student loan debt is over one-third of non-housing debt. A German sociologist attributes to these failures the birth of "a new sort of political deceit...the *expert lie*. It began with the Laffer Curve." This predicted that lower tax rates would raise revenues, justifying the Reagan tax cuts.[131]

Then has neoliberalism failed? No. Its global reach continues, as corporations gain access to markets and cheap labor through trade agreements that restrict government action. Governments continue to appoint Goldman Sachs alumni to jobs, both here and abroad. Obama had several[132] and so does Trump, including Secretary of the Treasury, chair of the SEC, and chief economic adviser.[133] Our rules continue to leave much of the social surplus in the hands of a few. Globalizers tout the benefits without trying to offset their uneven distribution or even noting them. [Slide21] Alan Greenspan, former Federal Reserve Chair,[134] acknowledged during hearings on the financial crisis

> "Those of us who have looked to the self-interest of lending institutions to protect shareholders' equity... are in a state of shocked disbelief.".... [to the question] Do you feel that your ideology pushed you to make decisions that you wish you had not made?" Greenspan answered: "Yes, I've found a flaw."[135]

A form of privatized Keynesianism helped create the bubble that burst in 2008: households with lagging income were induced to use debt to buy houses and maintain spending.[136]

Anatole Kaletsky, writing for the *Financial Times*, describes our current plight. Capitalism, when it is successful, provides material progress that mutes political pressure. It ceases to be acceptable when, in Keynes's phrase, "it doesn't deliver the goods."[137] It didn't during the Depression and it doesn't now.

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[1] www.federalobserver.com/wp-content/uploads/2009/03/the-once-and-future-money-bob-landis.pdf and http://www.goldensextant.com/LLCPostings4.html#anchor237271

[2] Lynn Turgeon, *Bastard Keynesianism*, p.1. Our data from https://fred.stlouisfed.org/series/M0892AUSM156SNBR

[3] http://www.primeeconomics.org/articles/is-globalisation-dead

[4] The Liberals created the beginnings of the British welfare state. https://en.wikipedia.org/wiki/Liberal_Party_(UK)

[5] "Keynes and Beatrice Webb now embarked on an improbable friendship based on mutual fascination, much incomprehension, but a shared belief in social science and public service." http://www.skidelskyr.com/site/article/doing-good-and-being-good/

[6] http://www.nybooks.com.ezproxy.hofstra.edu/articles/1967/01/26/smoothing-out-keynes/

[7] Robert Skidelsky, *Keynes: The Return of the Master*,75. From *Economic Possibilities for Our Grandchildren*

[8] http://www.skidelskyr.com/site/article/keynes-in-the-long-run/

[9] Keynes, *General Theory of Employment, Interest and Money*, ch. 24, pp.378-9. He continued, " I see no reason to suppose that the existing system seriously misemploys the factors of production which are in use."

[10] He is said to have replied to a critic, "When I find new information I change my mind; What do you do?" http://quoteinvestigator.com/2011/07/22/keynes-change-mind/

[11] Tcherneva, Keynes's Approach to Full Employment: Aggregate or Targeted Demand? Levy, Working Paper No. 542, 8/08, p.6.

[12] Tcherneva, "Permanent On-The-Spot Job Creation—The Missing Keynes Plan for Full Employment and Economic Transformation," Review of Social Economy, 70 (1) 66 http://dx.doi.org/10.1080/00346764.2011.577348, 65-6. Keynes, *Collected Wks*, v.27, 303.
[13] www.levy.org/pubs/wp_542.pdf
[14] Keynes, *General Theory*, Concluding Notes, p. 379.
[15]Keynes, *General Theory*, p. 378. By 1943, Keynes thought that eventually, reduced work time would be a better solution than private investment. "...the full employment policy by means of investment is only one particular application of an intellectual theorem. You can produce the result just as well by consuming more or working less. Personally I regard the investment policy as first aid. In U.S. it almost certainly will not do the trick. Less work is the ultimate solution (a 35 hour week in U.S. would do the trick now)." Quote from a letter to TS Eliot, and Keynes, 1943: "The Long-Term Problem of full employment," https://ecologicalheadstand.blogspot.com/p/long-term-problem-of-full-employment.html
[16]Robert Skidelsky, *Keynes: The Return of the Master*, 80
[17]"Rick Perry showed up at a coal plant this week and invoked a novel economic theory to explain his push to expand coal mining in an age of declining coal use. 'Here's a little economics lesson: supply and demand. You put the supply out there and the demand will follow.'" https://www.counterpunch.org/2017/07/07/93955/
[18] Quoted by Arthur Schlesinger, *Crisis of the Old Order*, p. 61.
[19] http://review.chicagobooth.edu/magazine/summer-2013/simon-kuznets
[20] To that date. www.ebhsoc.org/journal/index.php/journal/article/download/205/207
[21] https://www.nytimes.com/2017/04/13/technology/artificial-intelligence-automation-report.html
[22] "They [Keynes and Roosevelt] met in 1934, but most observers believed that Keynes had little impact on the president's thinking. Although Keynes's ideas were in circulation by 1933, the lag between academic advances and their use in policy tends to take decades..... Several of Roosevelt's advisers also argued for using government programs as a stimulus, but they followed a different logical path for their arguments." https://www.cfr.org/content/thinktank/Depression/Fishback_NewDeal_Chapter.pdf
[23] https://en.wikipedia.org/wiki/John_Maynard_Keynes
[24]*Means to Prosperity* http://crookedtimber.org/2013/06/17/the-queer-personality-and-floating-mind-what-did-keynes-say-to-and-about-roosevelt-2/
[25] *NY Times*, June 10, 1934.
[26] http://crookedtimber.org/2013/06/17/the-queer-personality-and-floating-mind-what-did-keynes-say-to-and-about-roosevelt-2/
[27] http://crookedtimber.org/2013/06/17/the-queer-personality-and-floating-mind-what-did-keynes-say-to-and-about-roosevelt-2/
[28]Like Robert Lucas: "Rational-expectations economists supposed that fiscal policy would be undermined by forward-looking taxpayers. They should understand that government borrowing would eventually need to be repaid, and that stimulus today would necessitate higher taxes tomorrow. They should therefore save income earned as a result of stimulus in order to have it on hand for when the bill came due. The multiplier on government spending might in fact be close to zero, as each extra dollar is almost entirely offset by increased private saving." http://www.economist.com/news/economics-brief/21704784-fiscal-stimulus-idea-championed-john-maynard-keynes-has-gone-and-out
[29] The CWA's workers laid 12 million feet of sewer pipe and built or improved 255,000 miles of roads, 40,000 schools, 3,700 playgrounds, and nearly 1,000 airports (not to mention building 250,000 outhouses still badly needed in rural America). The program was praised by Alf Landon, who later ran against Roosevelt" in 1936. It was abandoned under criticism by conservatives, who argued it produced little of value. WPA replaced it. https://en.wikipedia.org/wiki/Civil_Works_Administration
[30] https://www.bea.gov/scb/pdf/2011/08%20August/0811_gdp_nipas.pdf GDP=103.6B and I=16.5B in 1929; 56.4B and 1.7B resp, in 1933.
[31]Interest is 1.4%. http://www.cbpp.org/research/federal-budget/program-spending-as-a-percent-of-gdp-historically-low-outside-social
[32]In 2016, F=3.85tr; S/L=3.5 [almost =]; 34% 2015 including trs. 2016: SS=5%; medicare=3^{+}%; welfare & Medicaid-6% http://www.usgovernmentspending.com/welfare_spending_analysis Total f/s/l: 36% GDP in 2017
[33] See the Living New Deal: https://livingnewdeal.org/map/
[34]1934. http://crookedtimber.org/2013/06/17/the-queer-personality-and-floating-mind-what-did-keynes-say-to-and-about-roosevelt-2/
[35] https://en.wikipedia.org/wiki/Florence_Ada_Keynes
[36] https://en.wikipedia.org/wiki/A_Treatise_on_Probability
[37] https://en.wikipedia.org/wiki/John_Maynard_Keynes
[38]Robert Skidelsky, *Keynes: Return of the Master*, 76.
[39]Skidelsky, ibid., 78.
[40]https://www.theguardian.com/books/2015/mar/08/universal-man-seven-lives-john-maynard-keynes-review and http://www.nytimes.com/books/98/12/06/specials/skidelsky-keynes.html
[41]"... the point of the system that Keynes hoped to design was to prevent imbalances between nations—that is, one nation owing too much to another, thus causing onerous debt repayments.... Keynes—along with the equally brilliant founder of Buddhist Economics..., EF Schumacher—proposed something *really* radical, revolutionary, beautiful, transformative. History's first ultranational currency, Bancor. Bancor wasn't a currency that you or I could hold: only governments could hold it, only gold could be exchanged for it, only the IMF could lend and settle it, and... if you held too *much*, you'd be charged interest....It was the single most brilliant institutional design probably in human history.....Because America was the stronger party in the post-war negotiations, Bancor never came to be. Why did America object

to Bancor? Largely for selfish reasons: so the dollar could become the world's reserve currency." https://medium.com/bad-words/why-the-world-is-better-off-without-american-leadership-40f774faf44a

[42] Robert Lekachman, "The Radical Keynes," in Harold Wattel, *The Policy Consequences of John Maynard Keynes*, 36-7.

[43] https://en.wikipedia.org/wiki/John_Maynard_Keynes

[44] The Keyneses later were backers of the Royal Ballet.

[45] https://www.lrb.co.uk/v30/n24/alison-light/lady-talky

[46] http://www.dailymail.co.uk/home/books/article-1017464/Beauty-Brain.html May 8, 2008.

[47] https://www.lrb.co.uk/v30/n24/alison-light/lady-talky

[48] https://en.wikipedia.org/wiki/John_Maynard_Keynes

[49] The first government to adopt demand management policies was Sweden in the 1930s. https://en.wikipedia.org/wiki/Keynesian_Revolution

[50] http://www.economist.com/news/briefing/21697845-gross-domestic-product-gdp-increasingly-poor-measure-prosperity-it-not-even

[51] The data discussion is based on Marcuss & Kane, "U.S. National Income and Product Statistics Born of the Great Depression and World War II," SCB, https://www.bea.gov/scb/pdf/2007/02%20February/0207_history_article.pdf Output data were measured from industries like services, finance, manufacturing, and govt; income by wages and salaries in selected industries, dividends, rents, interest, etc.

[52] "These days, "pre-crash (2006), over 30 percent of the profits of American corporations classified as "industrial" came from financial transactions rather than the production of goods and provision of services." https://www.brookings.edu/wp-content/uploads/2016/06/Whose-Capital-What-Gains.pdf

[53] This is the paradox of thrift.

[54] Transistors needed for missile guidance. Defense agencies, such as the Office of Naval Research, Army Research Office, Air Force Office of Scientific Research, and Defense Advanced Research Projects Agency, invested in computing research with long-term effects on military capabilities (and, indirectly, civilian capabilities). 1945 The ENIAC built at the University of Pennsylvania and funded by the Army Ballistic Research Laboratory, was America's first such machine.

[55]Keynes, "It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated and in my opinion, inevitably associated with present-day capitalistic individualism." *General Theory*, 381. See also Skidelsky, "Keynes believed that, under laissez-faire, full employment levels of investment were achieved only in moments of excitement strong enough to overcome the uncertainty normally attaching to estimates of future returns. The normal tendency was for the propensity to save to be stronger than the inducement to invest. Moreover, this problem would grow more acute the richer societies became, because people tended to save a higher fraction of higher incomes even as perceived (and actual) opportunities for profitable investment declined." *Keynes: The Return of the Master*, 198.

[56] Joan Robinson, "Smoothing Out Keynes," NYRB 1/26/67.

[57] "... Keynes argued in *How to Pay for the War*...[1940], that the war effort should be largely financed by higher taxation and especially by compulsory saving (essentially workers lending money to the government), rather than deficit spending, in order to avoid inflation. Compulsory saving would act to dampen domestic demand, assist in channelling additional output towards the war efforts, would be fairer than punitive taxation and would have the advantage of helping to avoid a post war slump by boosting demand once workers were allowed to withdraw their savings." https://en.wikipedia.org/wiki/John_Maynard_Keynes

[58] began June, 1950

[59] As *Times* columnist Thomas Friedman has told us, 'The hidden hand of the market will never work without a hidden fist -- McDonald's cannot flourish without McDonnell Douglas, the builder of the F-15. And the hidden fist that keeps the world safe for Silicon Valley's technologies is called the United States Army, Air Force, Navy and Marine Corps." http://www.nytimes.com/books/99/04/25/reviews/friedman-mag.html

[60] "Two pyramids, two masses for the dead, are twice as good as one; but not so two railways from London to York." *General Theory*, 130-1.

[61] James E. Cronin, *The World the Cold War Made*, p.22. https://books.google.com/books/about/The_World_the_Cold_War_Made.html?id=YmhX0qYrA48C

[62] http://www.pogo.org/straus/issues/defense-budget/2017/americas-1-1-trillion-national-security-budget.html GDP c $19tr 2017, ERP

[63] https://www.nytimes.com/2017/09/22/business/economy/military-industrial-complex.html

[64] Budgeted increase is about $80B. http://fair.org/home/outlets-that-scolded-sanders-over-deficits-uniformly-silent-on-700b-pentagon-handout/

[65]https://rwer.wordpress.com/2016/12/27/military-keynesianism-and-the-military-industrial-complex/

[66] https://fas.org/irp/offdocs/nsc-hst/nsc-68-5.htm

[67] "An extraordinary new Pentagon study [At Our Own Peril: DoD Risk Assessment in a Post-Primacy World, 6/17, Nathan P. Freier, Col. (Ret.) Christopher M. Bado, Dr. Christopher J. Bolan, Col. (Ret.) Robert S. Hume, Col. J. Matthew Lissner. https://ssi.armywarcollege.edu/pubs/display.cfm?pubID=1358 Statregic Studies Inst, US Army War College--my files] has concluded that the US-backed framework of international order established after World War II is "fraying" and may even be "collapsing," leading the United States to lose its position of "primacy" in world affairs. The solution proposed to protect US power in this new "post-primacy" environment is, however, more of the same: more surveillance, more propaganda ("strategic manipulation of perceptions") and more military expansionism."

[68]"euthanasia of the rentier" *General Theory,* 376. "...the amount of capital needed to operate an economy at full employment is limited, and once achieved, the marginal return to capital will drop to the point that it merely covers depreciation, obsolescence, and a small return for risk and for managerial skill and judgment. 'Now, though this state of affairs would be quite compatible with some measure of individualism, yet it would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital.' "
https://shadowproof.com/2013/02/10/euthanasia-of-the-rentier/

[69] *General Theory*, 373.

[70] http://michael-hudson.com/2016/10/rentier-capitalism-veblen-in-the-21st-century/

[71] Minerals, timber, oil and gas get a depletion allowance. Real estate gets depreciation, value appreciates.

[72] Hudson interview, https://harpers.org/blog/2017/06/slow-crash/

[73] https://www.bloomberg.com/view/articles/2017-06-21/the-wrong-kind-of-entrepreneurs-flourish-in-america based on https://hbr.org/2017/06/is-america-encouraging-the-wrong-kind-of-entrepreneurship

[74]"Nobel economist takes aim at rent-seeking banking and healthcare industries," http://www.marketwatch.com/story/nobel-economist-takes-aim-at-rent-seeking-banking-and-healthcare-industries-2017-03-06

[75] https://en.wikipedia.org/wiki/Keynesian_Revolution

[76]"To complete the reconciliation of Keynesian economics with general equilibrium theory, Paul Samuelson introduced the neoclassical synthesis in 1955. According to this theory, if unemployment is too high, the money wage will fall as workers compete with each other for existing jobs. Falling wages will be passed through to falling prices as firms compete with each other to sell the goods they produce. In this view of the world, high unemployment is a temporary phenomenon caused by the slow adjustment of money wages and money prices. In Samuelson's vision, the economy is Keynesian in the short run, when some wages and prices are sticky. It is classical in the long run when all wages and prices have had time to adjust." http://evonomics.com/new-keynesian-economics-betrays-keynes/

[77] Lynn Turgeon, *Bastard Keynesianism*, p. 113.

[78] https://larspsyll.wordpress.com/2013/06/05/paul-krugman-a-bastard-keynesian/

[79]Krugman, *The Return of Depression Economics and the Crisis of 2008*, pp 182-3. Quoted in John Eatwell & Murray Milgate, *The Fall and Rise of Keynesian Economics*, 13. In any case, wages did decline during the Depression.

[80] Eatwell and Milgate, op. cit., p. 16. Eatwell is a noted British Keynesian.

[81] https://monthlyreview.org/2010/04/01/listen-keynesians-its-the-system-response-to-palley/

[82]http://delong.typepad.com/kalecki43.pdf

[83] Kalecki, Political Aspects of Full Employment, https://mronline.org/2010/05/22/political-aspects-of-full-employment/ https://www.socialeurope.eu/a-macroneconomic-revolution

[84] Max Planck, quoted by Keynes in Alfred Marshall's obit: *Economic Journal*, V. 34, N. 135 (Sep., 1924), p. 333, fn 2. http://semillero-hpe.wikispaces.com/file/view/Keynes24+-+Alfred+Marshall.pdf

[85] https://www.nakedcapitalism.com/2017/09/toys-r-us-another-private-equity-casualty.html

[86] A banking crisis in the early 1980's https://en.wikipedia.org/wiki/Early_1980s_recession#Financial_industry_crisis the dot.com in the late 1990's and the 2008 financial crisis.

[87] https://www.bloomberg.com/view/articles/2017-08-10/there-s-still-too-much-risk-in-the-financial-system andhttps://www.theguardian.com/commentisfree/2017/sep/14/the-financial-system-is-still-blinking-red

[88]in 2004. https://monthlyreview.org/2010/04/01/the-limits-of-minskys-financial-instability-hypothesis-as-an-explanation-of-the-crisis/ and https://newleftreview.org/II/97/adam-tooze-just-another-panic

[89] Minsky distinguished between three kinds of financing. ..."hedge financing", is the safest: firms rely on their future cashflow to repay all their borrowings. For this to work, they need to have very limited borrowings and healthy profits. The second, speculative financing, is a bit riskier: firms rely on their cashflow to repay the interest on their borrowings but must roll over their debt to repay the principal. This should be manageable as long as the economy functions smoothly, but a downturn could cause distress. The third, Ponzi financing, is the most dangerous. Cashflow covers neither principal nor interest; firms are betting only that the underlying asset will appreciate by enough to cover their liabilities. If that fails to happen, they will be left exposed..... When speculative and, especially, Ponzi financing come to the fore, financial systems are more vulnerable. If asset values start to fall, either because of monetary tightening or some external shock, the most overstretched firms will be forced to sell their positions. This further undermines asset values, causing pain for even more firms. They could avoid this trouble by restricting themselves to hedge financing. But over time, particularly when the economy is in fine fettle, the temptation to take on debt is irresistible. When growth looks assured, why not borrow more? Banks add to the dynamic, lowering their credit standards the longer booms last. If defaults are minimal, why not lend more? Minsky's conclusion was unsettling. Economic stability breeds instability. Periods of prosperity give way to financial fragility." http://www.economist.com/news/economics-brief/21702740-second-article-our-series-seminal-economic-ideas-looks-hyman-minskys

[90] Robert Lucas, "Macroeconomic Priorities," AER 3/2003, cited by John Eatwell & Murray Milgate, *The Fall and Rise of Keynesian Economics*, p.2.

[91] "Just as there never really was a Keynesian revolution in economic theory, there also never really was one in policy. […] All that was assimilated from Keynes by the policy establishment and its clients was the analysis of an economy in deep depression and a policy tool of deficit financing. […]The institutional structure has not been adapted to reflect the knowledge that the collapse of aggregate demand and profits, such as occasionally occurred and often threatened to occur in pre-1933 small government capitalism, is never a clear and present danger in Big Government capitalism such as has ruled since World War II. (Minsky 1986: 291, 295)" Eric Tymoigne, Minsky

and Economic Policy: "Keynesianism" All Over Again? , Levy WP #547, p.22. Government should act as both employer and lender of last resort. Minsky, "Financial Instability and the Decline (?) of Banking: Public Policy Implications," Hyman P. Minsky Archive. Paper 88. http://digitalcommons.bard.edu/hm_archive/88 p. 9. Minsky also recommended eliminating corporate income taxes as they encourage debt finance, which is destabilizing. *Stabilizing an Unstable Economy*, 354.

[92] https://monthlyreview.org/2017/04/01/who-is-behind-the-assault-on-public-schools/

[93] https://en.wikipedia.org/wiki/Neoliberalism

[94] NLR104, March-April 2017

[95] For instance, from about the 1930s to the 1980s, many countries had policies of financial regulation that included many of the following: 1. Interest rate ceilings 2. Liquidity ratio requirements 3. Higher bank reserve requirements 4. Capital Controls (that is, restrictions on capital account transactions) 5. Restrictions on market entry into the financial sector 6. Credit ceilings or restrictions on the directions of credit allocation 7. Separation of commercial from investment ("speculative") banks 8. Government ownership or domination of the banks. (Ito 2009: 431–433). https://socialdemocracy21stcentury.blogspot.com/2009/11/financial-deregulation-and-origin-of.html

[96] http://billmoyers.com/content/the-powell-memo-a-call-to-arms-for-corporations/

[97] Gowan, "Crisis in the Heartland, " *New Left Review* 55 jan feb 2009. "...as recently as 1975 roughly 80% of foreign exchange transactions involved the real trading of a product or a service. The remaining 20% were speculative.... By the late 90s that ratio had changed dramatically. In 1997 the percentage of foreign exchange which involved transactions in the real economy was only 2.5%. Today, the picture is even starker. According to the Global Policy Forum, in 2011 only 0.6% of foreign exchange could be traced to genuine international trade in goods and services. Of the rest, a minimum of 80% was directly attributable to exchange rate speculation..... An estimated $5.3tn changes hands every day in the foreign exchange markets. That is an entire year's worth of the European Union's GDP, gambled every three days." https://www.theguardian.com/commentisfree/2013/nov/20/money-trading-economy-foreign-exchange-markets-economy

[98] http://bilbo.economicoutlook.net/blog/?p=37018 Alan Blinder commented ...that by: "… about 1980, it was hard to find an American macroeconomist under the age of 40 who professed to be a Keynesian. That was an astonishing turnabout in less than a decade, an intellectual revolution for sure."

[99] "The standard of living of the average American has to decline." http://www.nytimes.com/1979/10/18/archives/volcker-asserts-us-must-trim-living-standard-warns-of-inflation.html

[100] David Harvey, *A Brief History of Neoliberalism*, op. cit., 1

[101]"The average annual increase in world GDP...was higher in the period 1952-75 than in the period since 1975, although that expansion in economic activity was somewhat faster in the advanced economies. ....Advocates of globalisation as well as their opponents continue to draw attention to flows of trade and labour, thereby deflecting attention from that which is most causal of instability and insecurity: financialisation of the global economy – when banks and the finance sector dominate and distort the real economy.... This is done by withholding affordable finance from the real economy, engaging in speculation and risk, making money from money rather than from investment in productive sustainable activity that creates jobs, wages and profits." Pettifor https://urpe.wordpress.com/2017/05/26/the-neoliberal-road-to-autocracy/ original http://www.ips-journal.eu/opinion/article/show/the-neoliberal-road-to-autocracy-2046/Germany's disastrous Eurozone policy illustrates "pre-Keynesian ideas that most macroeconomists rejected many years ago." https://www.socialeurope.eu/2017/05/rethinking-german-economic-policy/

[102]*The Liberal Order is Rigged*: "The fall of the Soviet Union removed the main "other" from the American political imagination and thereby reduced social cohesion in the United States. The end of the Cold War generated particular political difficulties for the Republican Party, which had long been a bastion of anticommunism. With the Soviets gone, Washington elites gradually replaced Communists as the Republicans' bogeymen. Trumpism is the logical extension of that development. ....During the Cold War, leaders in Western Europe constantly sought to stave off the domestic appeal of communism and socialism. After 1989, no longer facing that constraint, national governments and officials in Brussels expanded the EU's authority and scope, even in the face of a series of national referendums that expressed opposition to that trend and should have served as warning signs of growing working-class discontent..... Without the specter of communist-style authoritarianism haunting their societies, eastern Europeans have become more susceptible to populism and other forms of illiberalism. In Europe, as in the United States, the disappearance of the Soviets undermined social cohesion and a common sense of purpose." https://www.foreignaffairs.com/articles/world/2017-04-17/liberal-order-rigged

[103] https://www.lrb.co.uk/v31/n22/john-gray/we-simply-do-not-know

[104]Some economists resisted even this. "There are a number of economists who strongly object to even the basic idea that government spending is a useful tool during this crisis. For example, 1995 Nobel Laureate Robert Lucas called multiplier estimates from Economy.com "schlock economics"; John Cochrane of the University of Chicago has called government spending stimulus "a fallacy"; Robert Barro of Harvard called one version of the American Recovery and Reinvestment Act (ARRA) "the worst bill that has been put forward since the 1930s."Other economists say stimulus proponents are basing their arguments on the economics of yesteryear. Thomas Sargent of New York University and the Hoover Institution remarked that the support for the ARRA "ignore[s] what we have learned in the last 60 years of macroeconomic research," while 2004 Nobel Laureate Edward Prescott has said, "Stimulus is not part of the language of economics. There is an old, discarded theory that's been tried and failed spectacularly. The stimulus bill is likely to depress the economy." https://www.forbes.com/2009/06/16/stimulus-arra-government-spending-krugman-prescott-opinions-contributors-ohanian.html

[105] Erskine Bowles and Alan Simpson, https://en.wikipedia.org/wiki/National_Commission_on_Fiscal_Responsibility_and_Reform

https://obamawhitehouse.archives.gov/blog/2010/02/18/welcoming-national-commission-fiscal-responsibility-and-reform The flawed Reinhardt-Rogoff study http://www.nber.org/papers/w15639 appeared in 1/2010 appeared 1/2010.

[106] http://www.huffingtonpost.com/entry/barack-obama-grand-bargain-social-security-expansion_us_5751f92de4b0eb20fa0e0142

[107] http://www.ft.com/intl/cms/s/0/60b7a4ec-ab58-11e2-8c63-00144feabdc0.html#axzz2RiOKjy22 "Between 1815 and 1855…debt interest accounted for close to half of all …public spending. … By the early 1860s, debt had… fallen below 90 per cent of GDP."

[108] http://www.economist.com/blogs/freeexchange/2011/07/stimulus

[109] BLS data set https://data.bls.gov/pdq/SurveyOutputServlet

[110]https://www.bea.gov/iTable/iTable.cfm?reqid=9&step=3&isuri=1&903=1#reqid=9&step=3&isuri=1&904=2008&903=1&906=a&905=2017&910=x&911=0 *Economic Report of the President*, Table B-1, 565. https://www.gpo.gov/fdsys/pkg/ERP-2017/pdf/ERP-2017-table19.pdf Total Federal spending, including transfers, also declined 2012 and 2013 in current $.

[111] https://en.wikipedia.org/wiki/United_States_elections,_2010

[112]$81B increase vs 70 B for tuition http://fair.org/home/deficit-scare-tactics-are-what-citizens-should-really-be-afraid-of/

[113] "Keynes, Lerner & the Question of Public Debt," https://varoufakis.files.wordpress.com/2014/01/ta-on-debt-paper-1.pdf

[114]Quoted by Tony Aspromourgos, "Keynes, Employment Policy and the Question of Public Debt," Rev.of Pol.Ecy [2014] http://dx.doi.org/10.1080/09538259.2014.938440 p.586.

[115] "...private debt differs from national debt in being external. It is owed by one person to others. That is what makes it burdensome. Because it is interpersonal the proper analogy is not to national debt but to international debt…. But this does not hold for national debt which is owed by the nation to citizens of the same nation. There is no external creditor. We owe it to ourselves. A variant of the false analogy is the declaration that national debt puts an unfair burden on our children, who are thereby made to pay for our extravagances. Very few economists need to be reminded that if our children or grandchildren repay some of the national debt these payments will be made to our children or grandchildren and to nobody else. Taking them altogether they will no more be impoverished by making the repayments than they will be enriched by receiving them." Abba Lerner *The Burden of the National Debt* (1948) https://rwer.wordpress.com/2017/07/24/the-balanced-budget-paradox/ His theory is called "functional finance."

[116] David Colander, "Was Keynes a Keynesian or a Lernerian?"JE; 1984, 1574. https://www.jstor.org/stable/2725382

[117]*General Theory*, 378. Quoted in http://www.skidelskyr.com/site/article/the-relevance-of-keynes/

[118]Jack Dwyer, *Keynes's economics and the question of public debt*, https://ses.library.usyd.edu.au/bitstream/2123/8007/1/Jack%20Dwyer%20thesis.pdf 19-20.

[119] Kregel, quoted by Dwyer, 20.

[120] http://realmoney.thestreet.com/articles/07/20/2016/social-security-if-it-aint-broke-...-and-it-aint-and-it-never-will-be

[121]"While the US government is busy driving up its "sovereign" debt and the interest owed on it, Japan has been *canceling* its debt at the rate of $720 billion (¥80tn) per year. How? By selling the debt to its own central bank, which returns the interest to the government. ....As noted by fund manager Eric Lonergan in a February 2017 article: ....Japan has a *record low inflation rate* of .02 percent. That's not 2 percent, the Fed's target inflation rate, but 1/100th of 2 percent – almost zero. Japan also has an unemployment rate that is at a **22-year low of 2.8%,** and the yen was up nearly 6% for the year against the dollar as of April 2017. Selling the government's debt to its own central bank has not succeeded in driving up Japanese prices, even though that was the BoJ's expressed intent." https://www.counterpunch.org/2017/06/29/sovereign-debt-jubilee-japanese-style/

[122] https://real-economics.blogspot.com/2017/04/private-banks-create-virtually-all-money.html

[123] Agent Based-Stock Flow Consistent Macroeconomics: Towards a Benchmark Model http://www8.gsb.columbia.edu/faculty/jstiglitz/sites/jstiglitz/files/Agent%20Based-Stock%20Flow%20Consistent%20Macroeconomics-%20Towards%20a%20Benchmark%20Mode.pdf

[124] https://www.federalreserve.gov/monetarypolicy/reservereq.htm 10% reserve requirement for banks with deposits exceeding $115 million.

[125] Keynes believed supply bottlenecks or wage/profit push might lead to inflation before full employment, anticipating stagflation.

[126] Tcherneva, "Permanent On-The-Spot Job Creation—The Missing Keynes Plan for Full Employment and Economic Transformation," Review of Social Economy, 70 (1) 66 http://dx.doi.org/10.1080/00346764.2011.577348, 65-6. Keynes, *Collected Wks*, v.27, 303.

[127] Tcherneva, "Permanent On-The-Spot Job Creation," op. cit http://dx.doi.org/10.1080/00346764.2011.577348, Keynes, *Collected Wks*, v.21, 395 & 409.

[128]Tcherneva, Keynes's Approach to Full Employment: Aggregate or Targeted Demand? Levy, Working Paper No. 542, 8/08, p.4.

[129] Keynes's Approach to Full Employment: Aggregate or Targeted Demand? www.levyinstitute.org/pubs/wp_546.pdf p. 3

[130] Doug Henwood: "At 2.1% of GDP in 2016, total net fixed investment is just over half its 1950–2000 average of 3.8%; at 1% of GDP, investment in equipment is more than a third below its average over the same period of 1.6%..... The recent peak of 2.7% in total investment, set in 2014, was below the recession lows of 1975 and 1983.... In other words, in the best recent year, corporations invested at a rate matched or exceeded in earlier bad years. Not graphed is investment in structures ...whose trajectory is very similar to equipment. Its 2016 share of GDP, 0.6%, was a third its 1950–2000 average. Intellectual property (IP) investment...[has] been rising as a share of GDP, but it remains a tiny 0.5%. When it comes to its social benefits, it's a mixed bag. About half of it, 47% in 2016, is accounted for by software, both commercial and custom-made. Some software is useful, like the WordPress code that makes this blog possible and the Excel and Illustrator code that made the above graph possible, but some is overpriced and bloaty....A bit less, 42% last year, is research and development (R&D). Some R&D produces useful products, but an awful lot of it is just the pursuit of rents from branding and patent scheming. (The leading culprit here is the pharmaceutical industry, whose basic research is largely funded by governments and universities....) And the remaining 11% is accounted for by "entertainment, literary, and artistic originals," which includes *Game of*

Thrones .... While these can produce pleasure, their contribution to long-term prosperity is hard to measure. https://jacobinmag.com/2017/09/private-investment-profits-united-states

[131] Wolfgang Streeck, a German economic sociologist, "The Return of the Repressed," NLR104, March-April 2017

[132] Larry Summers, Timothy Geithner, and Gary Gensler, among others. http://www.whiteoutpress.com/articles/q42012/list-of-goldman-sachs-employees-in-the-white-house/

[133] Steve Mnuchin,, Treasury, and Gary Cohn, Director, NEC. Strategist Steve Bannon is also from Goldman .https://theintercept.com/2017/07/15/trumps-team-overseeing-wall-street-brings-in-more-goldman-sachs-alumni-docs-reveal/

[134] Along with Rubin and Summers. http://content.time.com/time/covers/0,16641,19990215,00.html

[135]https://blogs.crikey.com.au/us08/2008/10/24/the-end-has-begun-"i-was-shocked…i've-found-a-flaw/ from https://www.gpo.gov/fdsys/pkg/CHRG-110hhrg55764/html/CHRG-110hhrg55764.htm Nomi Prins quote, *It Takes a Pillage*, 121. He considered laws against financial fraud unnecessary—"the market would take care of itself "Well, you probably will always believe there should be laws against fraud, and I don't think there is any need for a law against fraud," she recalls. Greenspan, Born says, believed the market would take care of itself." Born headed the Commodity Futures Trading Commission. https://alumni.stanford.edu/get/page/magazine/article/?article_id=30885

[136] https://www.socialeurope.eu/2017/05/needed-progressive-vision-national-sovereignty/ The Financial Crisis Inquiry Commission concluded, http://www.nytimes.com/2011/01/26/business/economy/26inquiry.html "'The greatest tragedy would be to accept the refrain that no one could have seen this coming and thus nothing could have been done.' ...regulators 'lacked the political will' to scrutinize and hold accountable the institutions they were supposed to oversee."

[137]Anatole Kaletsky, "The Crisis of Market Fundamentalism," https://www.socialeurope.eu/2017/01/crisis-market-fundamentalism/